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RMD.N - Q3 2026 Resmed Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Q3 fiscal year 2026 Resmed earnings conference call. My name is Daryl, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Also, please note, this conference call is being recorded. Later, we will conduct a question and answer section.

Let me hand the call to Salli Schwartz, Resmed's Chief Investor Relations Officer.

Salli Schwartz - *Resmed Inc - Chief Investor Relations Officer*

Thanks, Daryl. I want to welcome our listeners to Resmed's third-quarter fiscal year 2026 earnings call. We are live webcasting this call and the replay will be available on the Investor Relations section of our corporate website later today. Our earnings press release and presentation are both available online now.

During today's call, we will discuss several non-GAAP measures that we believe provide useful information for investors. This information is not intended to be considered in isolation or as a substitute for GAAP financial information. We encourage you to review the supporting schedules in today's earnings press release to reconcile these non-GAAP measures with the GAAP reported numbers.

In addition, our discussion today will include forward-looking statements, including, but not limited to, expectations about our future financial and operating performance. We make these statements based on reasonable assumptions. However, our actual results could differ. Please review our SEC filings for a complete discussion of risk factors that could cause our actual results to differ materially from any forward-looking statements made today.

I'll now turn the call over to Mick.

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Thank you, Salli. And before we get into the details discussing our results for the quarter, I'm sure all of you have had an opportunity to see our press release and our announcement that Brett will be retiring, and Aaron Bloomer has been appointed our next Chief Financial Officer here at Resmed.

On behalf of our Resmed Board and over 10,000 Resmedians in 140 countries, I'd like to thank Brett who I've had the privilege to partner with for 26 years, including the last 55 quarters as a CEO and CFO team. Brett's been an integral part of my executive team that has delivered growth, expanded access, and improved hundreds of millions of lives. Over two decades as Resmed's CFO, Brett has built a financial foundation that has allowed us to deliver strong growth, robust free cash flow, and best-in-class operating margins.

Brett has also helped shape the company's culture and his legacy is embedded in our impact on the lives of many millions of patients worldwide. Brett leaves Resmed in a position of strength with a very disciplined and experienced global financial team. I am tremendously grateful to Brett for his service, his leadership, his friendship, and his commitment to Resmed.

I'd also like to now welcome Aaron Bloomer to Resmed. Aaron brings more than 17 years of global financial leadership, most recently serving as the CFO of Exact Sciences. He has a strong track record of driving strategic growth, operational excellence, financial discipline across complex global organizations, including prior financial leadership roles at 3M and at Baxter. Aaron's international perspective will be invaluable here at Resmed as we continue to execute on our global 2030 strategy to accelerate our business and to deliver long-term value for our shareholders around the world. We look forward to introducing you to Aaron over the coming quarters.

Okay. Now turning to the third quarter. We delivered another set of strong results, including 11% growth in headline revenue or 8% growth on a constant currency basis. We delivered operating leverage leading to margin expansion, both year on year as well as sequentially, resulting in 21% growth in non-GAAP earnings per share. A huge thank you to the global Resmed team for their steadfast dedication in serving patients in more than 140 countries worldwide. Resmed continues to build the world's leading digital health ecosystem encompassing sleep health, breathing health and healthcare technology delivered in the home.

I'd like to return to the three key themes that I've been highlighting over the past year. One that Resmed is an operational excellence machine and an innovation machine. Two, that Resmed's robust free cash flow and strong balance sheet position us to both invest in the business and return capital to our shareholders. And three, that Resmed remains a compelling investment opportunity, especially amidst global macro uncertainty. We just continue to deliver the results. I'll address each of these three themes in my prepared remarks here before we go to Q&A.

Our gross margin expansion in the quarter was strong. 290 basis points year over year and 50 basis points of gross margin expansion sequentially. These results demonstrate the operational excellence that is a Resmed hallmark. We've continued to execute on our pipeline of supply chain optimization initiatives. These efforts, along with our experience from past supply chain perturbations, including COVID impacts, the major recall of a competitor and semiconductor chip shortages position us well to navigate the current geopolitical uncertainty and any other external impacts to our resilient global supply chain.

Resmed also remains an innovation machine. We've continued the global rollout of our portfolio of novel fabric-based masks. These masks are designed to deliver an elevated comfort experience for patients, and they are changing the basis of competition in mask technology. The AirTouch N30i and more recently, the F30i Comfort as well as the F30i Clear have achieved strong early adoption, combined with incredibly positive patient feedback and home care provider feedback. And now we also have real-world data that shows that the AirTouch N30i drives 6% higher 90-day compliance than its silicone equivalent.

Those of you that truly understand the clinical and business relevance of adherence, know what the 600 basis points of extra compliance will mean as this technology expands. Adherence is the single biggest driver of lifetime value for patients, for physicians, for HME providers and for Resmed.

Watch this space as fabric technology expands its impact in our full face category with the F30i product launch, both the F30i Comfort and the F30i Clear. On the device side of our business, we have made further progress with the global rollout of the AirSense 11 platform, including most recently in markets in Latin America and just this month in our fast-growing China market. For our China market, as we've discussed before, we leverage a local digital ecosystem intentionally separated from our global ecosystems, including integration with platforms such as WeChat, then that creates a personalized patient engagement experience.

This is an element of our broader strategy to scale our global ecosystem model encompassing devices, software, and data, yet also customized for ecosystems models that tight local market needs. Resmed also continues to drive awareness in the sleep medicine clinical community. Our continuing medical education or CME programs include sleep medicine, physician society approved guidelines, including the benefits of CPAP, APAP and bilevel therapy as the clinical gold standard, the frontline treatment for any patient diagnosed with sleep apnea.

Our sleep apnea educational courses have now been completed more than 80,000 times by more than 45,000 unique clinicians. Surveys at the end of these courses show that 78% of these providers intend to change their clinical practices related to improving sleep health and breathing health based on what they learned.

We're following up with these clinicians to ensure that their intentions can translate into actions that benefit patients on their screening, diagnosis, and prescription journey. Early feedback suggests more patients being assessed for OSA and higher numbers of OSA diagnoses are occurring. We see this in our VirtuOx numbers as well. We will remain laser focused on continuous improvement of the sleep apnea pathway to ensure patients who need CPAP, APAP and bilevel therapy can readily access it and be treated for life.

On the clinical research front, we continue to invest in and track important studies that provide new evidence in sleep health. Last quarter, I noted a study in JAMA Neurology, where researchers found that early treatment of OSA with CPAP may reduce the risk of developing Parkinson's disease. Further in the field neurology and brain health, we are tracking an increased volume of clinical literature showing that sleep apnea is linked to higher risks of Alzheimer's disease as well as the broader field of dementia.

Specifically, a large population-based study recently published in the medical journal, Thorax, analyzed data for more than 2 million adults in the United Kingdom and found that obstructive sleep apnea was associated with an increased risk of all-cause dementia and vascular dementia. Notably, individuals with OSA who were treated with CPAP, did not show an elevated risk of dementia compared match controls that did not have CPAP treatment. This is huge.

Additionally, a meta-analysis published in the journal, GeroScience showed that individuals with apnea have a 33% high risk of developing dementia, and OSA was associated with a 45% increased risk of Alzheimer's disease. The growing body of evidence supports increased focus on screening, diagnosis, and treatment of sleep apnea as part of broader health and aging strategies. This is an area of rising costs and rising relevance for payers, providers, healthcare systems, patients as well as their caregivers and loved ones.

On the GLP-1 front, I'd like to share some new data with you. We looked at patients on PAP who subsequently start GLP-1 therapy to see what happened to their PAP use versus a control group that only has PAP therapy.

For this real-world analysis, we analyzed a cohort of N equals 1.7 million de-identified patient records and focused on the clinical and business relevant outcome of mask and accessory resupply. Our findings were that PAP patients who subsequently start GLP-1 therapy show higher PAP adherence rates than patients on PAP alone. Specifically, the two-year resupply rates are 5.1% higher and the three-year resupply rates are 6.2% higher for patients who are on PAP and then start GLP-1 therapy versus patients on PAP alone. As highlighted by Eli Lilly's own clinical trials in this space, these two therapies are better together. This makes sense.

Sleep apnea risk factors always include age, gender, craniofacial anatomy as well as weight. I would say, therefore, very often persists after even very significant weight loss and still needs to be treated. CPAP, APAP, and bilevel therapy remain the gold standard for treatment of OSA. And the reason is simple because these therapies are the most efficacious. Building on our ongoing real-world analysis in this space

and the ongoing growth of our own mask and accessories business over the last number of quarters and years, we continue to see that patients on a GLP-1 both initiate CPAP therapy more and stay on CPAP longer.

As an update to our ongoing large-scale claims analysis data that is built from a claims database of over 30 million patients, our specifically analyzed cohort includes N equals 2.1 million de-identified patients. Our latest update to this analysis is that we are consistently seeing that patients who have scripts for both PAP and GLP-1 are approximately 11% more likely to start on PAP therapy than patients who have a script for PAP alone.

They are also more than 3% more likely to have a resupply event at the one-year time period and more than 6% more likely to have a resupply event at the three-year time period. This data has remained consistent over the last years as have our very strong masks and accessories business growth. The data are in sync.

We believe GLP-1s are truly a megatrend and a once-in-a-generation demand gen opportunity for Resmed. Both GLP-1s and wearables alike are driving more patients to talk with their doctors. And ultimately, we believe this will lead to more patients coming into the Resmed ecosystem. In order to ensure that these patients receive the care they need, we're making meaningful investments both organic in our business and inorganic in capturing and channeling the increased consumer awareness.

We want to educate the clinicians to manage the interest and questions that come to them, and we want to create life-changing healthcare technologies that people love. Watch this space for more investments and partnerships from Resmed in this exciting area of better helping the 1 billion people worldwide impacted by sleep apnea to find their way to screening, diagnosis and ongoing therapy from Resmed.

This theme dovetails with my second message, which is that Resmed's strong free cash flow generation and robust balance sheet provide us with significant flexibility to both invest in our business and to return capital to shareholders. We will continue to invest in our digital sleep health concierge capabilities, expanding the ecosystems to help patients quickly move from awareness through testing, all the way to being inherent on our therapy for life.

I'm excited to announce today that we are expanding our leadership across the broader sleep health market. This week, we signed an M&A deal to acquire Noctrix, a company with an FDA De Novo classified medical device that treats restless leg syndrome, known in the medical community by the acronym RLS. RLS is the world's third most prevalent sleep disorder after sleep apnea and insomnia. RLS impacts approximately 7% of adults globally and around 17 million people in the US alone. RLS has meaningful overlap with our core market of obstructive sleep apnea.

RLS treatments from Noctrix are non-invasive, clinically proven and drug free, just like our CPAP/APAP and bilevel therapies. RLS prescriptions are written predominantly by sleep physicians and the flagship product from Noctrix called Nidra, flows through the same HME, DME delivery channel that we here at Resmed lead in market share for our other sleep products.

We expect to close this transaction on or around June 1, 2026. Brett will talk more about the expected impact to our financials in a few minutes, and we can discuss this strategic tuck-in acquisition in further detail during Q&A. I'll just say this that its revenue growth rate is higher than Resmed's and its gross margin is higher than Resmed, and we're very excited about this tuck-in.

The reach of our Resmed brand among sleep physicians and HME providers as well as our national and international distribution channel strength makes us the best owner of this scarce asset. The market and clinical need is incredible. 7% of the world's adult population need our help.

Okay. With regard to our residential care software business, we continue our disciplined portfolio management approach and work, investing more in high-growth areas of the business and looking to find other solutions for the lower growth areas of the business. We've made significant process with our portfolio management work this quarter, and I remain confident that we will accelerate RCS revenue back to sustainable high single-digit growth with double-digit operating profit growth in fiscal year 2027. We'll have further updates for you over the coming months and beyond.

While investing back into our business is our first priority for capital allocation through R&D and sales and marketing, Resmed also returned significant capital to shareholders through our combination of dividends and share repurchases. During the third quarter, we returned \$262 million to shareholders through this combination of our quarterly dividend and \$175 million in share repurchases. As you've seen, we've picked up the pace of our share repurchases in the last couple of quarters, and we'll continue to deploy meaningful capital here.

In concert with our ongoing investments, we delivered strong operating profit growth and robust free cash flow growth in the third quarter. Resmed remains a compelling investment opportunity amidst global uncertainty. This is my third and final point. During the third quarter, Resmed's strong revenue growth, gross margin expansion and disciplined investment approach generated 18% growth in non-GAAP operating income and \$520 million in free cash flow, another quarter of above 100% free cash flow conversion.

Whether you look back at the last 12 months or at a compounded annual growth rate (or CAGR) across 3 years, 5 years, or even 10 years, we've consistently been generating high single-digit revenue growth or higher and earnings growth that steadily outpaced revenue growth.

This track record delivered by 10,000+ Resmedians, combined with the enormous market opportunity we have in front of us, underpins our continued confidence in our 5 year outlook for high single-digit revenue growth and earnings growth higher than revenue growth. We have a clear and sustained leadership market position. We are committed to keep delivering for consumers, for patients, for physicians, for providers, for payers and for our communities that we serve. And of course, for you, listening to this call, our shareholders.

With that, I'll hand the call over to Brett in Sydney to go through a deeper dive into our financials, and then we'll open the floor for your questions. Brett, over to you.

Brett Sandercock - Resmed Inc - Chief Financial Officer

All right. Thanks, Mick. In my remarks today, I will provide an overview of our results for the third-quarter fiscal year 2026. Unless noted, all comparisons are to the prior year quarter and in constant currency terms were applicable.

We had strong financial performance in Q3. Group revenue for the March quarter was \$1.43 billion, an 11% headline increase and 8% in constant currency terms. Revenue growth reflected positive contributions across our device and mass portfolio and in our software business. Year-over-year movements in foreign currencies positively impacted revenue by approximately \$39 million during the March quarter.

Looking at our geographic revenue distribution and excluding revenue from our residential care software business, sales in the US, Canada and Latin America increased by 9%. Sales in Europe, Asia, and other regions increased by 7% on a constant currency basis. Globally, on a constant currency basis, device sales increased by 6%, while masks and other sales increased by 12%.

Breaking it down by regional areas. Device sales in the US, Canada and Latin America increased by 6%. Masks and other sales increased by 14%, reflecting continued growth in both our mask portfolio and resupply as well as incremental revenue from VirtuOx, which we acquired in Q4 FY25. Excluding the revenue contribution from VirtuOx, Americas masks and other sales also grew at a double-digit percentage year-over-year.

In Europe, Asia and other regions, the device sales increased by 6% on a constant currency basis and masks and other sales increased by 10% on a constant currency basis. Residential Care Software revenue increased by 4% on a constant currency basis in the March quarter underpinned by robust performance from our MEDIFOX DAN software vertical, partially offset by ongoing challenges in our senior living and long-term care vertical.

During the rest of my commentary today, I will be referring to non-GAAP numbers. We have provided a full reconciliation of the non-GAAP to GAAP numbers in our third-quarter earnings press release. Gross margin was 62.8% in the March quarter and increased by 290 basis points year-over-year and by 50 basis points sequentially. The increases were primarily driven by component cost improvements in manufacturing and logistics efficiencies as well as a small positive impact from product mix and foreign currency movements.

Our supply chain team continues to focus on our pipeline of productivity initiatives despite some of the current headwinds around fuel costs and emerging component cost pressures, we remain focused on making ongoing long-term gross margin improvements. Looking forward and subject to currency movements, we still expect gross margin to be in the range of 62% to 63% for fiscal year 2026.

Moving on to operating expenses. SG&A expenses for the third quarter increased by 14% on a headline basis and by 9% on a constant currency basis. The increase was primarily attributable to additional expenses associated with our VirtuOx acquisition and growth in employee-related expenses as well as marketing and technology investments. SG&A expenses as a percentage of revenue increased to 19.5% compared to 19% in the prior year period.

Looking forward and subject to currency movements, we still expect SG&A expenses as a percentage of revenue to be in the range of 19% to 20% for fiscal year 2026. The R&D expenses for the quarter increased by 12% on a headline basis and 8% on a constant currency basis. The increase was attributable to increases in employee-related expenses.

R&D expenses as a percentage of revenue increased to 6.6% compared to 6.5% in the prior year period. Looking forward and subject to currency movements, we still expect R&D expenses as a percentage of revenue to be in the range of 6% to 7% for fiscal year 2026. During the quarter, we recorded acquisition and portfolio review related expenses of \$6 million, reflecting costs associated with the evaluation of strategic transactions, including legal and professional fees for due diligence and related consulting work. These expenses have been treated as a non-GAAP adjustment in our Q3 financial results.

Operating profit for the quarter increased by 18%, underpinned by revenue growth and gross margin expansion. Our operating margin improved to 36.7% compared to 34.4% in the prior year period. Our net interest income for the quarter was \$12 million, which includes additional net interest income associated with a 10-year Singapore dollar to US dollar net investment hedge that was executed in February 2026. We expect this net investment hedge will generate \$9 million in net interest income on a quarterly basis going forward. As a result, we expect net interest income in Q4 FY26 will be approximately \$15 million.

During the quarter, we recognized unrealized losses of \$10 million associated with the write-down of several investments in our minority investment portfolio. This reduced our Q3 FY26 earnings per share by \$0.07. Our effective tax rate for the March quarter was 20.9% compared to 20.1% in the prior year quarter.

As we noted in our last quarter call, the increase in our effective tax rate was primarily due to the impact of global minimum tax legislation introduced in certain jurisdictions that became effective from July 1, 2025. We still estimate our effective tax rate for fiscal year 2026 will be in the range of 21% to 23%.

Our net income for the March quarter increased by 20% and non-GAAP diluted earnings per share increased by 21%. Movements in foreign exchange rates had a positive impact on earnings per share of approximately \$0.05 in Q3 FY26. Cash flow from operations for the quarter was \$554 million, reflecting strong operating results and disciplined working capital management. Capital expenditure for the quarter was \$34 million, and depreciation and amortization for the quarter totaled \$59 million. We ended the third quarter with a cash balance of \$1.7 billion.

At March 31, we had \$664 million in gross debt and \$996 million in net cash. We continue to maintain a solid liquidity position, strong balance sheet, and generate robust operating cash flows. As Mick discussed, we have entered into an agreement to acquire Noctrix Health for consideration of \$340 million, which we expect to close on June 1, 2026. We will include Noctrix Health in our group results from the closing date. The current annual revenue run rate for Noctrix is approximately \$24 million, and we'll report this revenue within our America's devices category.

For Q4 FY26, we expect Noctrix Health to reduce non-GAAP EPS by approximately \$0.02. Today, our Board of Directors declared a quarterly dividend of \$0.60 per share. During the quarter, we repurchased approximately 673,000 shares under our previously authorized share buyback program for consideration of \$175 million. We plan to purchase shares to at least the value of \$175 million during the fourth quarter

of fiscal year 2026. In addition to returning capital to shareholders through a dividend and share buyback program we will continue to invest in growth through R&D and tuck-in acquisitions.

Finally, as you know, this is my last earnings call ahead of my retirement, and I would like to take this opportunity to thank you for your support over many years. For me, it has truly been a great honor and privilege to have worked for our investors over the last two decades. I will continue to be a huge advocate for the great company at Resmed is. Thank you so much.

And with that, I will hand the call back to Daryl.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Bailey, Morgan Stanley.

David Bailey - Morgan Stanley & Co Ltd - Equity Analyst

Reduced component cost has been supportive of gross margins over the past couple of years. I wonder if you could please talk to some of the changes you're seeing in component costs and freight at the moment. And maybe also reference any contracting or supply chain changes you've made post COVID and the volatility we've seen in more recent years.

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes. Thanks, David. I'll go first and maybe hand to Brett to talk about sort of broader gross margin implications. But David, it's a very good question. Obviously, we're seeing some geopolitical uncertainty in the Middle East and impacting fuel rates potentially with oil and gas supply.

One thing -- and the good news for Resmed in terms of our logistics is we go across the Pacific Ocean on sea freight through the Panama Canal to East Coast, and we're not seeing any impacts from that geopolitical uncertainty impacting our core supply chain. But as you said, there are impacts on fuel, and we've done a very good job of going from air freight to a very, very vast majority of our work on sea freight. But there are some component costs we're looking at.

I can tell you our pipeline of supply chain improvement opportunities is such that at this moment, we're not changing our guidance, which is that Resmed plans to have gross margin accretion through 2030 and double-digit basis points improvements each year from here to 2030, even amidst all the changes that are happening. Obviously, these changes happen daily and things continue to move, and we'll watch everything.

But at this point, we still, as you saw, had very good gross margin accretion in the quarter to quarter and year-on-year. And we expect, as we look to FY27, '28, '29, all the way through 2030 to be able to through our great pipeline of work to still achieve gross margin accretion. It is more difficult given the geopolitical and external circumstances.

So with that, Brett, I'm not sure I left you much to go with there, but any thoughts?

Brett Sandercock - Resmed Inc - Chief Financial Officer

No, you covered it well, Mick. Yes, I mean, look, we've done -- the team has done a pretty good job over the last few years on components and improvements there. It gets tougher, obviously, in this environment. And realistically, we'll see some cost inflation on components coming through. But if you think about it -- and Mick talked about that productivity pipeline, there's a lot of other things you can do that can offset that.

And we've got think about the platform standardization, scale benefits, the vendor management, which we've done a great job on some longer-term contracts and improving those enormously and improving resilience as well. And then I think around execution on manufacturing, there's cycle times, there's asset utilization, logistics efficiencies, freight optimization. So there's many things that we can do that we think we can certainly offset that. And still our long-term objective is to increase that gross margin over time.

Operator

Steve Wheen, Jarden.

Steve Wheen - Jarden Group Ltd - Analyst

Just a question on Noctrix, just to confirm, it's growing faster and it's got higher margins. Are you talking to gross margin? And any indication as to what they will do to your SG&A and R&D?

And the other thing I just wanted to cover off on is how does it get reimbursed? And is there any opportunity for that reimbursement to change over time?

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes, Steve, great questions. And I'll go first and ask Brett to jump in if he likes. Yes, Noctrix Health is -- they have a very novel technology and Nidra is the product. It's a non-invasive nerve stim device that has excellent efficacy in treating restless leg syndrome, particularly moderate to severe restless leg syndrome. And the current therapies for this RLS are awful -- they're pharmaceutical options old drugs that have many side effects, and we think this is a huge opportunity for a non-invasive medical device with sleep doctors writing prescriptions, HMEs setting them up.

So it is growing faster than Resmed and has higher gross margins than Resmed. Obviously, they're in the early development cycle, and we will be investing in R&D. We will be investing in sales and marketing. I don't know, Brett, how deep you want to go into the details of the P&L there. But I'll let you review that.

But I'll just say this at a high level. This isn't just about one product coming into the sleep health portfolio for Resmed. We're the best owner of this asset, we can scale it faster than anyone. Our market access team and our knowledge of the CMS, the DMACs, the DMEs and actually where we can go to drive reimbursement further is going to be incredible. I can tell you, though, that the start-up team from Noctrix Health has done a great job of going payer by payer and getting reimbursement and getting this FDA de novo classified product into the market quickly.

Brett told you the run rate that they're hitting on the current quarter and multiply that by four. We're going to expect to do better than that as they go into this year because they're growing faster than Resmed, as I said earlier. So watch this space. We're going to help them get more market access, more reimbursement and grow faster than they are, and it's going to be a great team. And most importantly, we're going to take care of a whole bunch of patients.

7% of the adult population worldwide has RLS. And just where this product right now is focused on the US, 17 million people have RLS, and a very good portion of that are potentially addressable by this product. So watch this space.

Brett, any further thoughts to Steve's questions further down in the P&L of Noctrix Health?

Brett Sandercock - Resmed Inc - Chief Financial Officer

Yes. I mean the only thing I'd add is it's a strong growth trajectory. So we'll continue to invest in SG&A and R&D, so we'll certainly be doing that. And then probably the guidance I gave earlier on EPS impact or EPS dilution is it would probably be a good kind of estimate as we go forward. But obviously, we'll update that with a bit more clarity next quarter.

Operator

Saul Hadassin, Barrenjoey.

Saul Hadassin - Barrenjoey Markets Pty Ltd - Analyst

Maybe just a question on combined Europe/Asia revenue growth. Again, another quarter of strong growth. It's now several quarters in a row that you've delivered robust growth rates, particularly in masks.

I'm just wondering, is it the same measures that you've spoken to in the last few quarters that's driving that growth that looks to be above market. Any color you can give us on particular contracts or countries lumpiness in sales? Just some color as to what's driving I think that strong growth rate, please?

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes. Saul, it's a great question. And as you know, our Europe, Asia, and rest of world category includes like 140 countries. But your question is sort of looking for highlights. I mean, look, I'll say this, I think our team in Western Europe have done a good job of partnering with our home care provider customers and in markets in Northern Europe where we've been able to achieve and continue on contracts with ongoing annual capabilities and growth. They've done well there.

But also in our Asia Pacific markets, we've seen some really good sort of omni-channel approach in China, Korea, Australia, and New Zealand, where the teams have got subscription protocols, direct-to-consumer sort of resupply opportunities. And in the omni-channel, leveraging the home medical equipment and hard care provider channel as well to drive resupply as well as re-PAP.

And so we talk about mid-single-digit growth in devices and high single-digit growth in masks as being the general market. And to your point, robust mass growth that looks like we're taking share. If you're asking me why we're taking share and growing the market in the masks, I would look to the AirTouch N30i, our brand-new fabric technology mask.

It's the first in the world where you can put fabric on top of silicon at scale and mass production from a world-leading company in the field of sleep apnea. As I said in my prepared remarks, this is changing the basis of competition and it's not just about the N30i and the most recently released ones we just launched the F30i Comfort and the F30i Clear in the full face category, which is a higher-margin area I think this changes the basis competition period in how mask therapy happens.

Go to your channel checks, talk to patients, talk to providers, talk to respiratory therapist to do the set up every day. The comfort is incredible, that's how I think we're achieving that.

On the devices side, look, I think we are leveraging some of these sort of macro things in our favor from big pharma and big tech, but also Resmed's doing a better job. We've set up re-PAP programs that are getting out there and working in the US, and even in the tougher markets of Europe, Asia, rest of world.

So it's a good question, Saul, and hard to cover 140 countries in three or four minutes there, but I hope I did an okay job.

Operator

David Low, UBS.

David Low - UBS AG - Equity Analyst

Mick, if you mentioned channel checks. We're increasingly hearing about the change in funding models, particularly Synapse comes up from time to time and some caution amongst the DME customers of yours that this is going to be a challenge. Just wondering what you're seeing on that front, is there any trends that concern you?

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes, David, thanks. It's a very interesting question because it sort of gets us to talk about the evolution of our US HME business. And we had we call our HME Advisory Board just here in San Diego with a bunch of HME -- top HME customers across the US. And they were talking with our team, our commercial teams and sales and marketing and clinical and saying what they want over the next one, three, five years, and what they're seeing that their customers, the patients want to see smaller, quieter, more comfortable devices, more cloud connected devices, they also want smoother pathways and all the work we're doing with our VirtuOx sleep apnea testing protocols and our Ectosense and NightOwl home-sleep testing products to sort of smooth the channel and middle of funnel work right, from that prescription to set up. They want to help with that.

They did also bring up questions around the Synapse, and you know what they're doing in their experiments. I gave the perspective that, look, over the last 15 years, including 10 years ago when I was running -- maybe 15 years ago, I was running the US market and a company called CareCentrix was coming out doing this exact thing of looking to do utilization management in the field. And I think ultimately, UnitedHealth bought them.

Look, if you're looking at areas of waste and loss in healthcare system, I think you go to the hospital. You go to these high-cost areas where there's a lot of waste and a lot of reuse of supplies and expensive technologies used when lower cost, lower acuity care, like ASCs, outpatient, including home care, where Resmed plays are the best play. I don't think this is a huge threat. I think it's just like CareCentrix was a decade ago. It might be something they work on for a while.

I think the payers will find that the physicians want to work with an insurance company that takes care of the patients in the right way. We've had sort of utilization management approaches in France and Germany. And so I gave my US customers like we can deal with the segment of the market that will go here. But I think employers, physicians and others will choose and get Net Promoter Scores at insurance companies that really take care of the patients.

And OSA, particularly CPAP is a very low cost, low acuity, high clinical return, and high economic return, we can show the ROI for a payer provider like Kaiser or Intermountain or Geisinger. But even a payer alone, looking at models like this, they can see the ROI in Net Promoter Scores, satisfied patients, and reduced ER costs. So we're working very closely with the payers to make sure that this forms part of the ecosystem. It's not a big fear for the HMEs and just working with them to understand how this can play out is the right thing to do. So yes, evolution of pay has happened.

I love the US market. I love the competition we have there. We do really well, and we partner really well with our HMEs through all the perturbations that the payers look at. I don't think this is a major issue for them and very manageable.

Operator

Dan Hurren, MST.

Dan Hurren - MST Marquee - Analyst

All the best to Brett. I'm sure we'll go into that later. But on the fabric masks, Mick, I don't think anyone's arguing about the effectiveness of the compliance of the new fabric masks. But when we do undertake these channels checks you're recommending, we keep hearing that the price point is such that a traditional HME can't make any profit on either set up or resupply.

So from a commercial perspective, it kind of makes the compliance benefit sort of relevant. Is this correct, or are we hearing the wrong thing?

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes, Dan, it's interesting, and it depends on the 50 states, and there's probably five to seven payers per state, right, Blue Cross Blue Shield and United's variants and CVS, et cetera, et cetera, et cetera. And so you 250 matrix -- point matrix, if you like, when you think about payers and what they pay and where the correct price points are. And we obviously -- we want to work with all the different models, and we price for what is in terms of the extra cost that goes into those fabrics, but also the extra value that we see.

There's a 6% increase in adherence. Now for people who have margin, and there are many parts of the country where there are margin in at the current price points of an N30i that 6% increase in adherence and they can run the spreadsheet themselves.

There is a for profit reason to put that mask on. The most important one, though, is that the patient is satisfied, and it's a better mask. So if you get the patient over the line and they love it and it's more comfortable, and there's the potential for the HME and the patient to both be able to do this on a sustainable basis. And that is there in many states and many payers we're driving that forward. It won't be the case in every state and every payer when you look across it.

And so if your channel checks cover some that are below that line, the N30i are above the reimbursement, that's not going to be many parts I would hope that the DMEs will work and help those patients find a way CPAP.com or EasyBreathe and get away if they really -- that's the best mask for them. But we work with the HMEs to make sure the economics are in line.

And for the vast majority, we're able to get those economics to work within the reimbursed environment. I think, as I was saying earlier, in Europe, Asia, Rest of World in the cash markets, it's really price elasticity in assessing that. And patients will pay for comfort in those types of markets.

But in the HME driven ones and the partnerships we have there, we're trying to make sure the price points are that they make profit across the vast majority of customers. It won't be able to be there for every customer because payers do different things in each state and different payers within a state do different things as well. And we watch that very closely.

Operator

Brett Fishbin, KeyBanc Capital Markets.

Brett Fishbin - *KeyBanc Capital Markets Inc - Equity Analyst*

I just wanted to ask about competitive dynamics in the Devices segment, mainly in the US. Just thinking about one of the competitive launches that took place late in 2025. I was just wondering if you could speak to the level of noise you've observed in the US around that launch? And then if you've seen any level of market share shift and just your thinking about that?

Michael Farrell - *Resmed Inc - Chief Executive Officer, Chairman of the Board*

Yes. Thanks for the question, Brett. Yes. Look, obviously, as the market leader here, we look at every new entrant every new technology, and I would say we're productively paranoid at looking at everything that could come up from competition. We love healthy competition I can tell you that there's been no launch in the last 12 months, there's something that we go, oh, wow, goodness, we didn't think of that. That's extraordinary. That's amazing.

But what we do look at and say, hey, team, when is the last time we upgraded our AutoSet algorithm. It was like a decade ago. And there's this new technology called AI. And so more difficult to adopt in the medical space, and we've already had one FDA cleared product in a field of AI that we talked about in Smart Comfort last quarter, watch this space from Resmed. We are not looking back at the competition and launches and ideas and algorithms and devices they may launch.

We're looking to the future and saying, what's Resmed going to do to have smaller, quieter, more comfortable, more cloud connected and more intelligent therapies in the space. And we will bring out more intelligent therapies over time. We'll continue to have smaller quieter and more comfortable and watch this space on that. But yes, as you saw in the device number, very solid in the US, 6% growth, not seeing an impact, and we look at new patient starts, we look at new customer adoption. We look at all the new technologies and yes, no new competitive threat that we're worried about.

But I love using those moments if you like, in the market, to challenge my team to get stuff to market faster, in market faster and get it from the bench get it to those clinical trials and to field when it's quality, regulatory and through the line that it's Resmed standard, and it's what we do as the market leader in this space. And yes, watch this space for more algorithms coming from Resmed over the coming quarters and years.

Operator

Anthony Petrone, Mizuho Group.

Anthony Petrone - *Mizuho Securities USA LLC - Analyst*

And Brett, great working with you and good luck on the next chapter. Maybe one on primary care engagement, Mick, on the CME program, educational program you have, how often does that turn into a new prescriber? Like how often are these primary care physicians actually new to the CPAP world, they take an educational program and then they begin writing prescriptions. So what's the conversion rate there? And just a quick follow-up would just be any updated chatter on the Philips return to the market.

Michael Farrell - *Resmed Inc - Chief Executive Officer, Chairman of the Board*

Yes, Anthony, and very cheeky to get two questions in there. I'll answer the first one first. PCP engagement, yes, 80,000 CME programs out there, 45,000 unique clinicians. We track very closely and without going too much into the depths of our sort of clinical and marketing commercial teams data. I can tell you that we tend to aim to target through the ads on Doximity and the Medscape and the work on the CME.

We try to target PCPs, primary care physicians, who already are engaged at some level in home sleep apnea testing. It might be one patient referred per month over the last 12 months. So it might be three or five or seven or some higher number for some of them. And so what we don't want to do is go and do sort of pure evangelistic work with somebody just hasn't heard of sleep apnea. We look at someone who's already contacted whether it's VirtuOx or one of the competitors.

We're sort of agnostic to that. But we say, okay, if you've engaged already and hopefully you had your testing, and you get this education, and you want to step up, what's the change in volume of referrals? Does it go from one sleep apnea referral per month to three to five? Does it go from five to seven to nine? Does it go from 9, et cetera, to 12, 15 referrals per month per PCP?

And that's where we look at the volume. If you look at the volume that we released on the data on our VirtuOx which was double-digit increase in home sleep apnea tests through that VirtuOx team. And the VirtuOx team just had their national sales meeting just this -- earlier this week. And I can tell you they're hyped up and they're ready to go to those PCPs and watch this space for more partnerships from Resmed to continue that growth in primary care physicians. So it's less about brand-new greenfield getting a PCP that never did anything in sleep to suddenly do it after a CME program.

It's more about someone who's doing a little to now knowing more signs and symptoms, the Q&A, the history and physical, the right questions to ask and then the gold standard therapy that you have an obligation to write for, but also when used as directed, is the only one that can 90%-plus eliminate AHI. None of the other therapies can do it. And so making sure that, that's there. We're seeing that work. We're seeing the volumes increase.

You see that in our VirtuOx numbers. And frankly, you've seen our device numbers growing at 6%, where the market might be a little bit below that. And we're able to take, I think, create new market growth, and then take that share as the market leader.

Operator

Davin Thillainathan, Goldman Sachs.

Davin Thillainathan - Goldman Sachs Group Inc - Analyst

Brett, I just want to thank you for all the assistance over the years and all the best with your new chapter. I guess a question on US devices, just given it gets a disproportionate focus with the investment community. Appreciate it that you tend to talk about mid-single-digit growth, and that's what you have achieved.

But I was just wondering for this particular quarter or some of our channel checks were suggesting some sort of one-off events that may have held back growth, particularly to do with weather events. Just start I'll get your thoughts there and also perhaps your views given the oral GLP-1 rollout, how that part of the portfolio can grow over the next few quarters?

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes. Gavin, it's an interesting question because -- well, firstly on the first part, we really -- I mean there were weather impacts in some parts in the Midwest with some tornados and things. But we really didn't see a major weather event that has impacted our US devices and quarter. We did talk about seasonality from our Q2 to our Q3.

And you saw that in some of the numbers where high-deductible health plans and health savings accounts from our Q2 numbers were it was more like 7% or 8% growth in devices in our Q2, and it went to 6% here in our Q3, so some seasonality there, but no, not weather related. And I would actually argue that, yes, mid-single digits, 4, 5, or 6, we're at the high end of that at 6% growth in devices. We're doing pretty well.

Look, what I will say is, to your question about leveraging GLP-1 pills versus the two, three years now of an IFU for an injectable GLP-1 like Zepbound in the field. We're seeing a good flow of patients in the primary care, a good flow of patients into that diagnostic funnel, the conversion of getting that CPAP set up that sort of middle of funnel work.

There's a lot more work Resmed can do. That's why we bought Somnoware. That's why we bought the VirtuOx, and that's why we bought the capability for NightOwl to help with that flow. And also the partnership with our HMEs to deal with the higher volumes and sometimes virtual referrals that come from primary care physicians versus other traditional channels that they might get self-referral from a sleep physician. So we're watching it carefully.

Our goal every quarter is to say, look, if it's sitting at 5%, how do we drive that up, 50, 75, 100 basis points, to hit 6% like we did this quarter. We're not going to be able to do it every quarter, but when we can, where we get the demand gen, the capture, the creation, we can make it happen. And the team made it happen this quarter. I'm very proud of them and we're ramping up for the next one.

And more importantly, looking at the next one, three, five years, to the last point I'll make on this is, as you go from those injectables to the pills, it will be a broader population that they'll be appealing to some people just have this psychological thing about putting a needle into them. I think more patients will come through on that. But yes, there's once in a generation demand opportunity, I think, from GLP-1s, bringing patients in and the advertising that big pharma is going to do. I think it's more of like a one-, three-, five-year tailwind for us versus one, three, five quarter.

And so we're looking at the marathon here, and we're looking at this kilometer marker for the metric system people or Mile marker for the US folks. And this mile marker was pretty good in what we did in demand capture, curation, and conversion. Thanks for the question, Davin.

Operator

Jon Block, Stifel.

Jordan Bernstein - *Stifel Nicolaus & Company Inc - Analyst*

Jordan Bernstein on for Jon. Just going to continue down the same road a bit on the US devices. I would call an increasing amount of ad spend from the likes of Eli Lilly, and there's Zepbound OSA brand campaigns, don't sleep on osa.com, and the broader population for the pills out there like you just spoke to, I think the question for you would be, in that perspective is that bound OSA patient walks into their PCP or their sleep doc, are they walking out with the GLP-1 and CPAP prescriptions.

And if they are, how would you describe that patient's behavior? Are they getting that CPAP prescription filled? And maybe you could talk about their journey exiting the doctor?

Michael Farrell - *Resmed Inc - Chief Executive Officer, Chairman of the Board*

Yes. Jordan, it's a really good question, and obviously, one that we've thought a lot about and are analyzing really closely, right? Because we didn't pay for the demand gen. We're not going after these new patients, someone else is, as you said, there's a don't sleep on OSA campaign. I'd love to have a spare \$100 million to put into a campaign like that.

I'm glad somebody else does because it's a huge benefit and gets a patient in that we never would have gotten. But once they're there, once they're at that PCP and as we're targeting high-volume GLP-1s and people with home sleep apnea testing providers, that PCP is writing a prescription for CPAP because they're going to talk to the patient. But it's kind of a legal or clinical obligation to write for the lowest cost, most efficacious therapy. And a patient sort, CMS has already set up and most payers have set up this sort of 90-day, you've got to get to a 70% of trailing 30 days in that first 90-day period to qualify for 91st day, the device isn't taken away. It's an interesting game theory that when that approach to reimbursement was put in 15, 20 years ago.

I think some of the industry saw as a threat. Resmed saw it as an opportunity to say, well, we've got a 90-day sprint to help this patient find their way to the lowest cost completely reversible and most efficacious therapy on the planet to treat obstructive sleep apnea. So the PCPs and particularly sleep doctors know this. They don't get every patient adherent we brag about our 87% adherence at day 90. That means 13% don't go there.

Are we going to get 87% with every patient that Eli Lilly brings into that PCP that sleep doc? No. But are we going to get close to it? And what can we do to maximize this once in a generation opportunity for us. That's our challenge.

That's what we're educating the PCPs on. That's what we're educating the primary care positions on the sleep doctors on because they know what's gold standard therapy, and they know it's not simple to get a patient adherent in those first 90 days. And they know if they're not here 90 days the device comes back, and it's just not good for the patient, not good for us. But anyway, that's our 30-year journey here. The fact that someone else is playing for the demand gen, and we've got a capability to maximize the probability of setup is incredible.

What I love is that the company who makes this product on their own education says the combination therapy is better. Their own clinical data show that so that their reps will be saying that if they're following the rules and so will ours. And so that education to the PCP will be the same. And the sleep doctors obviously know this back to front. Weight loss, if you look at the sort of primary investigators on the trials that drove this for Lilly.

They say this has always been about tracking age, tracking gender, tracking craniofacial anatomy, but also tracking weight and realizing that weight management and sleep apnea management go hand in hand. Go back and look at our data. Now on 2.1 million patients. These patients, when they have this combination prescription, start more, stay on more and stick with our therapy over the long term, three years plus now. And we were asked the question, wait a second, what if they start CPAP and then get a GLP-1, we've now answered that with N equals 1.7 million to show these patients also if you sort and then at a GLP-1, you're there and going.

If you get the prescription at the same time, that's the next phase, and we're looking at it, and we are seeing, I think, in terms of the age and the gender and the approach of these people in line approach. I'd like it to be better. And so that's what we're working on. But it's a great question, Jordan, and very pertinent.

Operator

Brandon Vazquez, William Blair.

Brandon Vazquez - William Blair Capital Partners - Analyst

Mick, I was wondering if you could -- you talked a little bit about reiterating expectations next year and through 2030 for high single-digit growth and then better kind of leverage on the bottom line. Maybe from a high level, I'm sure we'll get into it more next quarter. But for a high level, talk to us about what the growth drivers are. You see -- are there any new product launches, anything like that as we go into fiscal '27?

And then, Brett, maybe on your end, like how do we think about what the levers are on a go-forward basis in '27, kind of more of the same with efficiencies, or is there anything else new that we should be contemplating?

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Yes. Thanks, Brandon. It's a really good question. And you've followed us for many years, you know I don't release product pipeline ahead of where we go. But I can talk about the N30i and it's great takeoff, the F30i Comfort, F30i Clear are doing really well and at premium prices.

Obviously, our core masks are doing well. We talked about the AirSense 11 expansion across Latin America now, Brazil, Argentina, beyond. We talked about the China launch, and that's a fast-growing consumer-driven market where we're a premium but very successful brand there. And we're talking about Korea omni-channel, Australia, New Zealand, Singapore, and the growth there as well. So I won't go in to promise the future product pipeline, but I can tell you, there's a lot in it, and I've challenged the team to get time to market faster.

I did talk earlier about algorithms and how those can come along and those are digital upgrades, but can also come with hardware upgrades at the same time. So watch this space on that.

Brett, any color for Brandon there on our go-forward guidance of high single-digit revenue growth and better than that for bottom line?

Brett Sandercock - Resmed Inc - Chief Financial Officer

No. I mean we'll keep doing what we're doing. We're focused on driving top line, and we've got really good operating margins. So whatever we deliver on top line will fall through to the bottom line. So it's important for us to keep executing on our strategy, and that's what we'll continue to do into FY27.

Operator

We are now at the 60-minute mark, so I will turn the call back over to Mick Farrell.

Michael Farrell - Resmed Inc - Chief Executive Officer, Chairman of the Board

Well, thank you, Daryl, and thank you to all for joining us for our earnings call today. On behalf of the more than 10,000 Resmedians, serving people in 140 countries. I'm pleased to say we're able to deliver another strong quarter of performance and continue to build value for all of our stakeholders and many of our Resmedians are shareholders. So well done to you as well. And Brett, 55 quarters.

Thank you for being a great partner and friend, and best wishes on your retirement, and welcome to Aaron Bloomer going to be an amazing firecracker CFO that's going to take us to the next level and build on the amazing foundation that Brett has set up. Over to you, Salli.

Salli Schwartz - Resmed Inc - Chief Investor Relations Officer

Thank you, Mick, and thank you as well, Brett. I just want to echo thank you to everyone who joined us today. We appreciate your time and interest. If you have any additional questions, please don't hesitate to reach out directly to investorrelations@Resmed.com. Daryl, you may now close the call.

Operator

Ladies and gentlemen, thank you so much for your participation. This does conclude today's teleconference. You may disconnect your lines at this time, and enjoy the rest of your day.

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